

Kuveyt Türk Katılım Bankası Anonim Şirketi

**Interim condensed consolidated financial
statements together with independent auditors'
review report as at June 30, 2011**

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Report on review of interim condensed consolidated financial statements to the board of directors of Kuveyt Türk Katılım Bankası Anonim Şirketi

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Kuveyt Türk Katılım Bankası A.Ş. and its subsidiaries (“the Group”) as at June 30, 2011 comprising of the interim consolidated statement of financial position as at June 30, 2011 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six months period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 “Interim Financial Reporting” (“IAS 34”). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

September 19, 2011
Istanbul, Turkey

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Interim consolidated statement of financial position at June 30, 2011 (Currency- In thousands of Turkish Lira - TL)

	Notes	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Assets			
Cash and balances with the Central Bank of Turkey	3	780,691	415,764
Balances with other banks and financial institutions	3	730,847	933,913
Reserve deposits at the Central Bank of Turkey		420,850	329,844
Financial assets – held for trading		78,073	32,738
Derivative financial instruments		74,440	28,480
Share certificates		27	27
Gold fund		3,606	4,231
Financial assets – available-for-sale		5,515	4,520
Due from financing activities, net	4	8,212,757	6,868,937
Minimum finance lease payments receivable, net	5	105,539	87,473
Precious metals		632,062	507,311
Other assets	7	248,717	165,004
Construction projects, net		35,156	25,538
Investment properties, net		52,168	55,975
Property and equipment, net	6	116,251	114,675
Intangible assets, net		19,351	13,158
Deferred tax assets	9	7,840	13,400
		11,445,817	9,568,250
Assets and a disposal group held for sale		30,279	26,015
Total assets		11,476,096	9,594,265
Liabilities and equity			
Due to other financial institutions and banks		841,632	482,972
Sukuk securities issued		165,987	156,433
Current and profit / loss sharing investors' accounts	8	8,799,119	7,479,284
Derivative financial instruments		37,478	14,300
Other liabilities		235,344	171,938
Provisions		21,415	7,909
Income taxes payable	9	14,608	5,663
		10,115,583	8,318,499
Liabilities directly associated with assets classified as held for sale		-	-
Total liabilities		10,115,583	8,318,499
Share capital	10	950,000	850,000
Share premium		23,250	23,250
Legal reserves and retained earnings		408,600	402,208
Currency translation differences		1,252	308
Other reserves	10	(22,589)	-
Total equity attributable to equity holders of the parent		1,360,513	1,275,766
Total liabilities and equity		11,476,096	9,594,265

The policies and explanatory notes on pages 6 through 21 form an integral part of these interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Interim consolidated statement of comprehensive income for the six months ended June 30, 2011 (Currency- In thousands of Turkish Lira - TL)

	Notes	June 30, 2011 (Unaudited)	June 30, 2010 (Unaudited)
Continuing operations			
Income from financing activities:			
Profit on originated loans from profit / loss sharing accounts		206,673	146,022
Profit on originated loans from current accounts and equity		168,365	141,443
Profit on deposits with other banks and financial institutions		9,419	10,048
Profit on finance leases		3,135	2,433
Total income from financing activities		387,592	299,946
Profit shares distributed to participation accounts		(173,924)	(122,537)
Profit shares distributed to banks and financial institutions		(15,305)	(5,769)
Net financing income		198,363	171,640
Provision for impairment in due from financing activities and lease receivables, net	4, 5	(33,301)	(30,255)
Net financing income after reserve for impairment in due from financing activities and lease receivables		165,062	141,385
Foreign exchange gain, net		38,144	18,524
Net financing income after net foreign exchange gain		203,206	159,909
Fee and commission income		97,107	75,862
Income from construction projects, net		585	422
Net trading income		8,099	13,196
Other income		21,235	29,744
Total other operating income		127,026	119,224
Fees and commission expense		(14,190)	(11,401)
Staff costs		(90,339)	(66,256)
Depreciation and amortization expense		(12,445)	(10,575)
Withholdings and other taxes		(9,694)	(5,493)
Rent expense		(14,184)	(11,217)
Other expenses		(40,843)	(46,613)
Share of loss of an associate		-	(489)
Total other operating expense		(181,695)	(152,044)
Profit before income tax		148,537	127,089
Current tax charge	9	(22,836)	(26,999)
Deferred tax (charge) / credit	9	(5,560)	292
Net income for the period		120,141	100,382
Exchange differences on translation of the foreign subsidiary		944	-
Other comprehensive income for the period		944	-
Total comprehensive income for the period		121,085	100,382
Earnings per share (basic and diluted) for net income attributable to the ordinary equity holders of the Group during the period (in full TL per share)	12	0.126	0.106
Basic and diluted earnings per share for net income attributable to the ordinary equity holders of the Group during the period (in full TL per share) from continuing operations	12	0.126	0.106

The policies and explanatory notes on pages 6 through 21 form an integral part of these interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Interim consolidated statement of changes in equity for the six months ended June 30, 2011 (Currency - In thousands of Turkish Lira - TL)

	Notes	Share capital	Share premium	Legal reserves	Retained earnings	Currency translation differences	Other reserves	Total
Balances at January 1, 2010		500,000	23,250	18,066	276,165	-		817,481
Share capital increase from reserves		50,000	-	-	(50,000)	-	-	-
Transfer from retained earnings to legal reserves		-	-	7,498	(7,498)	-	-	-
Dividends paid		-	-	-	(10,275)	-	-	(10,275)
Total comprehensive income for the period		-	-	-	100,382	-	-	100,382
Balances at June 30, 2010, (Unaudited)		550,000	23,250	25,564	308,774		-	907,588
Balances at January 1, 2011		850,000	23,250	25,564	376,644	308	-	1,275,766
Share capital increase from reserves		100,000	-	-	(100,000)	-	-	-
Transfer from retained earnings to legal reserves		-	-	9,358	(9,358)	-	-	-
Dividends paid	11	-	-	-	(13,749)	-	-	(13,749)
Total comprehensive income for the period		-	-	-	120,141	944	-	121,085
Acquisition of non-controlling interest	10	-	-	-	-	-	(22,589)	(22,589)
Balances at June 30, 2011, (Unaudited)		950,000	23,250	34,922	373,678	1,252	(22,589)	1,360,513

The policies and explanatory notes on pages 6 through 21 form an integral part of these interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Interim consolidated statement of cash flows for the six months ended June 30, 2011 (Currency- In thousands of Turkish Lira - TL)

	Notes	June 30, 2011 (Unaudited)	June 30, 2010 (Unaudited)
Cash flows from operating activities:			
Net profit before income tax		148,537	127,089
Adjustments to reconcile net income to net cash used in operating activities:			
Gain on sale of property and equipment, intangible assets, investment properties and assets held for sale		(4,875)	(3,224)
Depreciation and amortization expense		12,445	10,575
Reserve for employee termination benefits and personnel bonus accrual		(24,396)	(15,944)
Reserve for impairment in due from financing activities	4, 5	33,301	30,255
Expense accrual of participation accounts	8	(8,097)	(2,272)
Income accrual from deposits at the Central Bank of Turkey		-	(200)
Reversal of impairment in construction projects and other assets		(6,239)	-
Impairment for property and equipment		3,500	-
Income accrual of funds invested		(127,029)	4,267
Expense accrual of funds borrowed		11,495	(3,423)
Net change in derivative financial instruments		(22,782)	(2,298)
Income taxes paid		(13,891)	(14,882)
Operating profit before changes in operating assets and liabilities		1,969	129,943
Net changes in :			
Reserve deposits at the Central Bank of Turkey		(91,006)	(23,325)
Due from financing activities		(1,273,763)	(1,114,561)
Minimum financial lease payment receivables		(18,793)	(16,917)
Other assets and construction projects		(93,168)	7,973
Current accounts and profit/loss sharing investors' accounts and other liabilities		1,420,884	688,852
Payment for employee termination benefits		(952)	(644)
Precious metals		(124,751)	(10,202)
Net cash used in operating activities		(179,580)	(338,881)
Cash flows from investing activities:			
(Purchase) / Proceeds from the sale of held-to-maturity securities		(994)	7,529
Purchase of property and equipment, intangible assets and investment properties		(33,979)	(28,618)
Proceeds from sale of property and equipment, intangible assets and investment properties		15,872	2,579
Additions to assets and liabilities held for sale		-	(1,891)
Proceeds from sale of asset and liabilities held for sale		7,321	-
Purchase of investments in associate		-	(15,999)
Net cash used in investing activities		(11,780)	(36,400)
Cash flows from financing activities:			
Dividends paid	11	(13,749)	(10,275)
Increase in due to financial institutions and banks		356,719	55,594
Net cash provided by financing activities		342,970	45,319
Net increase / (decrease) in cash and cash equivalents		151,610	(329,962)
Net foreign exchange difference on cash and cash equivalents		10,251	(1,576)
Cash and cash equivalents at the beginning of the period	3	1,349,677	1,142,409
Cash and cash equivalents at the end of the period	3	1,511,538	810,871
Profit share received		391,859	304,213
Profit share paid		205,470	144,547

The policies and explanatory notes on pages 6 through 21 form an integral part of these interim condensed consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2011 (Currency - In thousands of Turkish Lira - TL)

1. Corporate information

General

Kuveyt Türk Katılım Bankası A.Ş., formerly Kuveyt Türk Evkaf Finans Kurumu A.Ş., (a Turkish joint-stock company-the “Bank”) was formed in accordance with the provisions of Decree No. 83/7506, issued on December 16, 1983 relating to the establishment of Special Finance Houses in Turkey. The Bank obtained permission from the Central Bank of Turkey (CBT) on February 28, 1989 and commenced its operations on March 31, 1989. Currently, the Bank is continuing its operations under the purview of the Banking Regulation and Supervision Agency (“BRSA”) and the Banking Law No. 5411, dated November 1, 2005. The Bank’s head office is located at Büyükdere Caddesi No: 129, 34394 Esentepe Şişli/İstanbul/Turkey. The parent and the ultimate controlling party of the Bank is Kuwait Finance House (KFH) incorporated in Kuwait. Effective from April 8, 2006, the Bank’s commercial title was changed from Kuveyt Türk Evkaf Finans Kurumu A.Ş. to Kuveyt Türk Katılım Bankası A.Ş. to comply with the Banking Law No. 5411, dated November 1, 2005.

The interim condensed consolidated financial statements were approved by the Board of Directors of the Bank on September 19, 2011. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

Nature of activities of the bank and its subsidiaries

At June 30, 2011, the Bank’s core business is operating in accordance with the principles of interest-free banking as a participation bank by collecting funds through current and profit/loss sharing accounts, and disbursing funds to its customers.

The Bank’s subsidiary, Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. (“Körfez”), in which the Bank has 100% shareholding was incorporated in June 1996 in Turkey. The Bank had signed an agreement with Hayat Investment Company (resident in Kuwait) on November 23, 2009 to transfer 51% of the shares of Körfez in exchange for USD 10,613,000 and TL 2,450. Subsequently, on June 6, 2010, the Group bought back 51% of the outstanding ordinary shares of Körfez, and obtained full control of Körfez by having 100 percent shareholding. Körfez’s registered address is Büyükdere Caddesi, No: 129/1, 34394 Esentepe Şişli/İstanbul. Körfez is engaged in development and marketing of real estate projects in Turkey. Körfez’s main sources of revenue are from the sales of these projects and expert valuations carried out on behalf of third parties.

The Bank’s other subsidiary, Körfez Tatil Beldesi A.Ş. (“Körfez Tatil Beldesi”), in which the Bank has a 100% shareholding was incorporated in 2001 in Edremit, Turkey. Körfez Tatil Beldesi is engaged in Güre Project, which comprises the construction, selling and operating of 199 “time-sharing” houses in Edremit-Balıkesir.

The Bank’s subsidiary, Kuveyt Türk Sukuk Ltd. has been established on August 24, 2010 in United Kingdom as a special purpose vehicle (SPV) in order to issue Sukuk Securities amounting to USD 100,000,000.

The Bank’s other subsidiary, Kuveyt Turkish Participation Bank Dubai Limited. (“Dubai Limited”), in which the Bank has a 100% shareholding was incorporated in 2009 in Dubai, UAE. Dubai Limited is engaged in interest-free banking as a participation bank.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2011 (continued) (Currency - In thousands of Turkish Lira - TL)

1. Corporate information (continued)

The Bank has bought 25% share of the joint venture called Körfez İnşaat İş Ortaklığı, which was established by Körfez and a third party company who had 75% and 25% stakes, respectively. The Bank has bought the 25% stake of the third party company in Körfez İnşaat İş Ortaklığı for a total consideration of TL 22,589 in exchange of releasing the debt of the third party company to the Bank amounting to TL 15,888 and taking over the debt of the third party company to Körfez İnşaat İş Ortaklığı amounting to TL 6,701. The purchase price has been determined based on the expected discounted future cash flows of Körfez İnşaat İş Ortaklığı. Afterwards, the Bank has transferred 8% of the joint venture shares, amounting to TL 7,229, to Körfez in exchange of release of its debt to Körfez İnşaat İş Ortaklığı amounting to TL 6,701 and for a cash consideration amounting to TL 528.

2. Basis of presentation and accounting policies

2.1 Basis of preparation

The interim condensed consolidated financial statements of the Bank and its subsidiaries (collectively – the Group) have been prepared in accordance with International Financial Reporting Standard IAS 34 “Interim Financial Reporting” (“IAS 34”).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at December 31, 2010.

2.2 Significant Accounting Policies and adoption of new standards

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended December 31, 2010, except for the adoption of the new standards and interpretations as of January 1, 2011 noted below:

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amended)
- IAS 32 Classifications on Rights Issues (Amended)
- IAS 24 Related Party Disclosures (Revised)

The adoption of these standards, amendments, and interpretations did not have any effect on the financial performance or position of the Group.

In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The amendments that are effective as at January 1, 2011 are as follows:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Reporting
- IFRIC 13 Customer Loyalty Programs

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2011 (continued) (Currency - In thousands of Turkish Lira - TL)

2. Basis of presentation and accounting policies (continued)

The above changes do not have any impact on financial position and performance of the Group.

New standards and interpretations not yet adopted

Up to the date of approval of the interim condensed consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published but are not yet effective for the current reporting period and which the Group has not early adopted, as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the interim condensed consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

- IFRS 9 Financial Instruments – Phase 1 financial instruments, classification and measurement
- IAS 12 Deferred Taxes: Recovery of Underlying Assets (Amendment)
- IFRS 7 Financial Instruments: Disclosures as part of its comprehensive review of off balance sheet activities (Amended)
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 27 Separate Financial Statements (Amended)
- IAS 28 Investments in Associates and Joint Ventures (Amended)
- IAS 19 Employee Benefits (Amended)
- IAS 1 Presentation of Financial Statements (Amended)

Except for IFRS 9 the above changes are either not relevant to the Group or not expected to have an impact on financial position and performance of the Group. Phase I of IFRS 9, the new accounting standard that will eventually replace IAS 39, issued in November 2009, establishes a new classification and measurement framework for financial assets. The new standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The standard will be applied retrospectively with certain transition provisions. The Group is assessing the impact of the new standard.

2.3 Functional and presentation currency

The functional currency of the Bank and its Subsidiaries located in Turkey is Turkish Lira (TL). The functional currency of Dubai Limited is US Dollar. The presentation currency of the Group is TL.

2.4 Foreign currency translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date announced by the Central Bank of Turkey (CBT). All differences are taken to the income statement as foreign exchange gain / (loss).

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2011 (continued) (Currency - In thousands of Turkish Lira - TL)

2. Basis of presentation and accounting policies (continued)

Foreign currency exchange rates used by the Group as of respective period-ends are as follows :

Dates	USD / TL	EUR / TL
June 30, 2010	1.5747	1.9217
December 31, 2010	1.5460	2.0491
June 30, 2011	1.6302	2.3492

As at the reporting date, the assets and liabilities of the Bank's foreign subsidiary are translated into the Bank's presentation currency at the rate of exchange at the balance sheet date, and its income statement is translated at the USD/TL 1.5950 average exchange rate for the period. Exchange differences arising on translation are taken directly to a separate component of equity.

2.5 Reclassifications

Lands located in Kartal and Kilyos which are owned by Körfez amounting to TL 21,371 as of December 31, 2010 which were classified as property and equipment in the statement of financial position as of December 31, 2010 have been classified as construction projects to be consistent with the current period presentation.

3. Cash and balances with banks

For the purpose of the consolidated cash flows statement, cash and cash equivalents comprise the following at June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
Cash on hand	155,183	121,619
Balances with the Central Bank of Turkey	625,508	294,145
Cash and balances with the Central Bank of Turkey	780,691	415,764
Balances with banks and other financial institutions	730,847	933,913
Total	1,511,538	1,349,677

As of June 30, 2011 and December 31, 2010, "balances with other banks and financial institutions" are made up of demand and time deposits. The time deposits, all of which have original maturities less than three months, can be analyzed as follows:

	June 30, 2011				December 31, 2010			
	Amount		Effective profit rate		Amount		Effective profit rate	
	TL	Foreign currency (TL equivalent)	TL	Foreign currency	TL	Foreign currency (TL equivalent)	TL	Foreign currency
Deposits with other banks and financial institutions	225,000	72,280	7.9%	0.44%	302,531	150,488	6.90%	0.63%
Total	225,000	72,280			302,531	150,488		

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2011 (continued) (Currency - In thousands of Turkish Lira - TL)

4. Due from financing activities, net

	June 30, 2011	December 31, 2010
Performing		
Funds invested from profit/loss sharing accounts	4,234,506	3,896,841
Funds invested from current accounts and equity	3,683,428	2,789,516
Income accruals on due from financing activities (*)	266,009	127,189
	8,183,943	6,813,546
Funds in arrears		
Funds invested from profit / loss sharing accounts	122,455	141,148
Funds invested from current accounts and equity	106,247	116,455
	228,702	257,603
Total	8,412,645	7,071,149
Impairment allowance		
Funds invested from profit / loss sharing accounts	(93,363)	(111,102)
Funds invested from current accounts and equity	(106,525)	(91,110)
	(199,888)	(202,212)
Total due from financing activities	8,212,757	6,868,937

(*) Includes also foreign currency evaluation differences of foreign currency indexed loans.

As of June 30, 2011, the Bank took possession of collateral (lands and buildings) from customers amounting to TL 35,923 (December 31, 2010 - TL 35,247), which are classified as investment properties in the balance sheet as it is held for either rental income or capital appreciation through selling of those properties.

Movement in impairment allowance for funds disbursed is as follows :

	June 30, 2011	June 30, 2010
Balance at January 1,	202,212	182,150
Provisions – Bank	32,574	28,912
Provisions - participation accounts	8,698	14,787
Recoveries of amounts previously provided for	(25,249)	(41,771)
Reserves written off in current period	(18,347)	-
Balance at the end of period	199,888	184,078

The Bank's share in total recoveries from allowances previously provided for due from financing activities and minimum finance lease payments receivable is TL 16,818 (June 30, 2010 – TL 41,771) and this amount is included in other income.

The impairment allowance of TL 199,888 (December 31, 2010 – TL 202,212) is made up of a specific and collective allowance.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2011 (continued) (Currency - In thousands of Turkish Lira - TL)

5. Minimum financial lease payment receivable, net

Minimum finance lease payments receivable (net) is as follows:

	June 30, 2011	December 31, 2010
Gross investment in finance leases	123,803	98,725
Unearned finance income	(21,453)	(14,964)
Total impaired receivables	8,693	8,111
Impairment allowance	(5,504)	(4,399)
Minimum lease payments receivable, net	105,539	87,473

Movements in the impairment allowance for leasing receivables is as follows:

	June 30, 2011	June 30, 2010
Balance at January 1	4,399	1,283
Provisions - Bank	727	1,343
Provisions - participation accounts	429	3,283
Recoveries of amounts previously provided for impairment allowance written off in current period	(51)	(1,043)
	-	-
Balance at the end of the period	5,504	4,866

Gross investment in finance leases as to their maturity:

	June 30, 2011	December 31, 2010
Not later than 1 year (*)	54,647	56,663
Later than 1 year and not later than 5 years	63,518	48,432
Later than 5 years	14,331	1,741
Minimum lease payments receivable, gross	132,496	106,836
Less : Unearned finance income	(21,453)	(14,964)
Net investment in finance leases	111,043	91,872
Less : Allowance for impairment	(5,504)	(4,399)
Minimum lease payments receivable, net	105,539	87,473

(*) includes total impaired receivables amounting to TL 8,693 (December 31, 2010 – TL 8,111).

As of June 30, 2011, TL 107,912 (December 31, 2010 - TL 57,264) of gross lease receivables is denominated in foreign currency (USD and EUR).

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2011 (continued) (Currency - In thousands of Turkish Lira - TL)

5. Minimum financial lease payment receivable, net (continued)

Net investment in finance leases as to their maturity:

	June 30, 2011	December 31, 2010
Not later than 1 year (*)	46,794	50,745
Later than 1 year and not later than 5 years	50,889	39,684
Later than 5 years	13,360	1,443
Net investment in finance leases	111,043	91,872

(*) Includes total impaired receivables amounting to TL 8,693 (December 31, 2010 – TL 8,111).

Material leasing arrangements of the Group includes several machinery and equipment with a contractual maturity of up to 4-5 years.

6. Property and equipment

Acquisitions and disposals

During the six months ended June 30, 2011, the Group acquired assets with a cost of TL 15,153 (June 30, 2010 – TL 10,224).

Assets with a net book value of TL 2,290 were disposed of by the Group during six months ended June 30, 2011 (June 30, 2010 - TL 968), resulting in a net loss on disposal TL 268 (June 30, 2010 – TL 444).

7. Other assets

Other assets comprise the following:

	June 30, 2011	December 31, 2010
Clearing accounts	145,219	80,904
Receivables from precious metals transactions	68,750	40,596
Blockage for letter of guarantee	2,198	17,443
Prepaid expenses	13,906	5,744
Value added tax (VAT) receivable	3,379	2,964
Receivable from assets sold	-	1,890
Receivables from banking operations	3,408	1,543
Other	11,857	13,920
	248,717	165,004

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2011 (continued) (Currency - In thousands of Turkish Lira - TL)

8. Current and profit loss sharing investors' accounts

	June 30, 2011	December 31, 2010
Current accounts:		
Turkish Lira	1,266,234	1,066,562
Foreign currency	853,188	685,119
	2,119,422	1,751,681
Profit/loss sharing investors' accounts:		
Turkish Lira	3,980,911	3,412,531
Foreign currency	2,604,955	2,242,936
	6,585,866	5,655,467
Blocked accounts:		
Turkish Lira	26,469	20,632
Foreign currency	33,716	9,761
	60,185	30,393
Total current accounts and profit/loss investors' accounts	8,765,473	7,437,541
Expense accrual on current accounts and profit/loss sharing investors' accounts	33,646	41,743
Total current accounts and profit/loss sharing investors' accounts	8,799,119	7,479,284

9. Income taxes

The Bank and its subsidiaries are subject to taxation in accordance with the tax rules and the legislation effective in the countries in which the Group companies operate.

In Turkey, the corporation tax rate for the fiscal period/year ending June 30, 2011 and December 31, 2010 was 20%. Corporate tax returns are required to be filed by the twenty fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

A 75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt subject to meeting of other conditions mentioned in the New Corporate Tax Law, if such gains are not distributed within 5 years.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2011 (continued) (Currency - In thousands of Turkish Lira - TL)

9. Income taxes (continued)

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. The Group has not recorded a provision for any additional taxes for the fiscal years that remain unaudited (2006 - 2010), as the amount, if any, cannot be estimated with any degree of certainty.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

	June 30, 2011	December 31, 2010
Current tax expense	22,836	42,227
Prepaid tax (-)	(8,228)	(36,564)
Income taxes payable	14,608	5,663

	June 30, 2011	June 30, 2010
Current tax expense	22,836	26,999
Deferred tax charge / (credit)	5,560	(292)
Total income tax charge	28,396	26,707

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Bank's effective income tax rate for the periods June 30, 2011 and 2010 are as follows :

	June 30, 2011	June 30, 2010
Net profit before income tax	148,537	127,089
At Turkish statutory income tax rate of 20%	29,707	25,418
Effect of income not subject to tax	(1,720)	(1,216)
Effect of expenditure not allowable for income tax purposes	796	1,777
Effect of restatement pursuant to IAS 29 and other permanent differences	(387)	728
Income tax charge	28,396	26,707

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2011 (continued) (Currency - In thousands of Turkish Lira - TL)

9. Income taxes (continued)

Deferred income tax as of June 30, 2011 and December 31, 2010 are attributable to the following items :

	Deferred tax assets/(liabilities)	
	June 30, 2011	December 31, 2010
Due from financing activities	8,010	5,555
Reserve for employee termination benefits	2,127	1,416
Deferred income	13,870	12,283
Bonus accrual of personnel	-	602
Effect of precious metals valuation	1,564	-
Effect of other temporary differences	625	398
Deferred tax assets	26,196	20,254
Restatement of property and equipment, intangible assets and other non-monetary items	(3,740)	(3,033)
Accounting for finance leases	(574)	(574)
Derivative accrual	(7,384)	(2,836)
Effect of precious metals valuation	-	(411)
Provision for non cash loans and check commitments	(6,658)	-
Deferred tax liabilities	(18,356)	(6,854)
Deferred tax asset – net	7,840	13,400
Movement of net deferred tax (liability) / asset is:		
	June 30, 2011	June 30, 2010
Balance at the beginning of the period	13,400	12,749
Deferred income tax recognized in income statement	(5,560)	292
Balance at the end of the period	7,840	13,041

10. Share capital and other reserves

Share capital

	June 30, 2011	December 31, 2010
Number of common shares , 1 TL, par value. Authorized, issued and outstanding.	950.00 million	850.00 million

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2011 (continued) (Currency - In thousands of Turkish Lira - TL)

10. Share capital and other reserves (continued)

The movement of the share capital of the Group (in number and in historical TL) is as follows :

	June 30, 2011		June 30, 2010	
	Number	TL	Number	TL
At January 1	850,000,000	850,000	500,000,000	500,000
Shares issued in - bonus shares from retained earnings	100,000,000	100,000	50,000,000	50,000
At June 30	950,000,000	950,000	550,000,000	550,000

The Group does not have any share type other than common shares. There is no differentiation in the rights, preferences and restriction of the common shares.

As of June 30, 2011 and December 31, 2010, the composition of shareholders and their respective % of ownership can be summarized as follows :

	June 30, 2011		December 31, 2010	
	Amount	%	Amount	%
Kuwait Finance House	591,228	62.2	528,993	62.2
Vakıflar Genel Müdürlüğü Mazbut Vakıfları	177,833	18.7	159,113	18.7
The Public Institution for Social Security, Kuwait	85,500	9	76,500	9.0
Islamic Development Bank	85,500	9	76,500	9.0
Other	9,939	1.1	8,894	1.1
Total share capital	950,000	100%	850.000	100%

Other reserves

The Bank has bought 25% share of the joint venture called Körfez İnşaat İş Ortaklığı, which was established by Körfez and a third party company who had 75% and 25% stakes, respectively. The Bank has bought the 25% stake of the third party company in Körfez İnşaat İş Ortaklığı for a total consideration of TL 22,589 in exchange of releasing the debt of the third party company to the Bank amounting to TL 15,888 and taking over the debt of the third party company to Körfez İnşaat İş Ortaklığı amounting to TL 6,701. The purchase price has been determined based on the expected discounted future cash flows of Körfez İnşaat İş Ortaklığı. Since the amount of the non-controlling interest in Körfez İnşaat İş Ortaklığı is negligible, the total consideration amounting to TL 22,589 recognized as a separate component of equity as being the difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2011 (continued) (Currency - In thousands of Turkish Lira - TL)

11. Dividends paid and proposed

Dividends paid and proposed

During the current period, the Bank has paid a dividend of TL 13,749 (June 30, 2010 – TL 10,275) from the profit of the year 2010.

	June 30, 2011	June 30, 2010
Ordinary shares		
Amount	13,749	10,275
TL (full) per share	0.014	0,011

12. Earnings per share

Basic earnings per share (EPS) amounts are calculated by dividing the net profit for the period attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the period.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank are similarly treated. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares.

The following reflects the income and per share data used in the basic earnings per share computations:

	January 1 – June 30, 2011	January 1 – June 30, 2010
Net profit attributable to continuing operations of the Bank for basic earnings per share	120,141	100,382
Net profit/(loss) attributable to discontinued operations for basic earnings per share	-	-
Net profit attributable to ordinary equity holders of the Bank for basic earnings per share	120,141	100,382
Weighted average number of ordinary shares for basic earnings per share (thousands)	950,000	950,000
Basic earnings per share (expressed in full TL per share)	0.126	0.106
Basic earnings per share from continuing operations	0.126	0.106

There are no dilutive potential ordinary share and accordingly there are no diluted earnings per share for any class of shares.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2011 (continued) (Currency - In thousands of Turkish Lira - TL)

13. Commitments and contingencies

In the normal course of its banking activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements. Such commitments include mainly letters of guarantee, letters of credit and acceptance credits.

- a) The following is a brief summary of significant contingencies and commitments as of June 30, 2011 and December 31, 2010 :

	June 30, 2011	December 31, 2010
Letters of guarantee issued by the Bank	3,457,353	3,150,355
Letters of credits	533,909	535,890
Commitments	1,251,706	1,284,671
Acceptance credits	60,741	39,285
Other guarantees	63,098	4,678
Total	5,366,807	5,014,879

Except for the Head-Office, and three branch buildings, all branch premises of the Group are leased under operational leases. The lease periods vary between 2-10 years and lease arrangements are cancelable. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rental payables under operating leases are as follows :

	June 30, 2011	December 31, 2010
Within one year	26,280	20,573
After one year but not more than five years	73,520	57,763
More than five years	22,896	19,479
Total	122,696	97,815

Fiduciary activities

Other than checks and notes received for collections in favor of the customers, and which are not included in the accompanying financial statements, the Group holds fiduciary assets of TL 1,940 as of June 30, 2011 (December 31, 2010 - TL 1,428). As of June 30, 2011, the amount of the checks and bonds in collection are TL 1,760,221 (December 31, 2010 – TL 1,257,619) and TL 368,841 (December 31, 2010 - TL 271,256), respectively.

14. Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. For the purpose of these financial statements, shareholders and parties associated with them are referred to as related parties. A number of transactions were entered into with related parties in the normal course of business. The related parties also include individuals who are principal owners, management and members of the Group's Board of Director's and their families.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2011 (continued) (Currency - In thousands of Turkish Lira - TL)

14. Related party disclosures (continued)

The following tables provides the total amount of balances due from and due to related parties as of June 30, 2011 and December 31, 2010 and also transactions which have been entered into with related parties during the six months period ended June 30, 2011 and 2010.

i) Balances with financial institutions and due from financing activities:

		June 30, 2011		December 31, 2010	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
KFH – Bahrain (*)	Kuwaiti Dinar	-	-	1,260	7
	USD	30,174,331	49,190	35,076,197	54,228
	BHD	19,768	93	15,580	64
Autoland Otomotiv San. ve Tic. A.Ş. (*)	TL	-	26,295	-	20,163
Other related parties		-	43,472	-	36,083
			119,050		110,545

(*) determined as related party as these companies are under the common control of the ultimate parent

ii) Due to other financial institutions:

		June 30, 2011		December 31, 2010	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL Equivalent
The Public Institute for Social Securities KW (1)	USD	133,101,587	216,982	182,629,366	282,345
			216,982		282,345

(1) Shareholders

iii) Profit/loss sharing investors' and current accounts:

		June 30, 2011		December 31, 2010	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	USD	101,628,805	165,675	51,488,984	79,602
Kuwait Finance House (1)	TL	-	11,856	-	2,632
Kuwait Finance House (1)	XAU	-	-	181,090	12,719
Islamic Development Bank (1)	USD	39,163,578	63,844	41,005,617	63,395
Vakıflar Genel Müdürlüğü Mazbut Vakıfları (1)	TL	-	4,917	-	2,621
Neova Sigorta AS (*)	USD	62,247	101	666,070	1,030
	EUR	3,015	7	-	-
Other related parties	TL	-	6,456	-	5,687
	TL	-	57,253	-	30,783
			310,109		198,469

(1) Shareholders

(*) determined as related party as these companies are under the common control of the ultimate parent.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2011 (continued) (Currency - In thousands of Turkish Lira - TL)

14. Related party disclosures (continued)

iv) Profit on loans:

		June 30, 2011		June 30, 2010	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Autoland Otomotiv San. ve Tic. A.Ş. (*)	TL	-	458	-	838
Other related parties	USD	685,570	1,118	-	-
	TL	-	202	-	573
		1,778		1,411	

(*) determined as related party as these companies are under the common control of the ultimate parent.

v) Profit on deposits with other banks and financial institutions

		June 30, 2011		June 30, 2010	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
KFH – Bahrain (*)	Kuwaiti Dinar USD	121,257	183	-	-
		183		-	

(*) determined as related party as these companies are under the common control of the ultimate parent.

vi) Profit shares distributed :

		June 30, 2011		June 30, 2010	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	USD	1,480,482	2,426	358,729	587
Islamic Development Bank (1)	EUR	-	-	11,101	8
Islamic Development Bank (1)	USD	561,290	932	384,669	606
Vakıflar Genel Müdürlüğü					
Mazbut Vakıfları (1)	TL	-	68	-	-
Neova Sigorta (*)	TL	-	275	-	192
Auto Land Otomotiv San. ve Tic. A.Ş. (*)	TL	-	-	-	177
Kredi Garanti Fonu	TL	-	4	-	54
Other	TL	-	63	-	26
		2,382		1,073	

(1) Shareholders

(*) determined as related party as these companies are under the common control of the ultimate parent.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Selected notes to interim condensed consolidated financial statements as at June 30, 2011 (continued) (Currency - In thousands of Turkish Lira - TL)

14. Related party disclosures (continued)

vii) Profit shares distributed to banks and financial institutions:

		June 30, 2011		June 30, 2010	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL Equivalent
The Public Institute for Social Securities KW (1)	USD	2,289,997	3,682	924,619	1,402
			3,553		1,402

(1) Shareholders

viii) Non-cash credits issued :

		June 30, 2011		December 31, 2010	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	USD	-	-	203,316	314
Other related parties	TL		2,919		5,158
			2,919		5,472

(1) Shareholders

Directors' remuneration

The executive members of the Board of Directors and key management of the Bank received remuneration totaling TL 5,644 during the six months period ended June 30, 2011 (For the six months ended June 30, 2010 - TL 4,276). During the six months ended June 30, 2011 the key management personnel did not receive any termination benefits (During the six months ended June 30, 2010 - nil).

15. Subsequent events

a) In accordance with the "Communiqué in respect to the changes in the Communiqué Regarding the Reserve Requirements" published on July 26, 2011 and August 8, 2011 the reserve requirement rates on foreign currency liabilities have been changed as it is stated below.

Foreign currency liabilities	Required reserve ratios (%)
FC demand deposits, notice deposits, FC private current accounts, deposits/ participation accounts up to 1- month, 3-month, 6-month, 1 Year maturities	11.5
FC deposits/FC participation accounts with 1-year or longer maturity, cumulative FC deposits/FC participation accounts	9.5
Other liabilities up to 1-years (including 1-years)	11.5
Other liabilities up to 3-year (including 3-years)	9.5
Other liabilities with 3-year and longer maturity	8.5

b) On July 25, 2011, Board of Directors of the Bank authorized the Bank management to acquire tier II capital loan from KFH for an amount of USD 200 million.